

LIQUIDITY AND CAPITAL RESOURCES

We had \$649 in cash and cash equivalents available at June 30, 2001. During the first six months of 2001 our primary source of funds continued to be cash provided by operating activities. In the first six months of 2000 our primary sources of funds included cash provided by operating activities and short-term borrowings issued to finance our acquisition of Sterling. We have entered into agreements with several banks for committed lines of credit totaling \$3,700, all of which may be used to support commercial paper borrowings. We had no borrowings outstanding under these lines of credit as of June 30, 2001. Commercial paper borrowings as of June 30, 2001 and December 31, 2000 totaled \$5,024 and \$6,437, out of \$8,000 authorized.

During the first six months of 2001 we closed on 1,400 towers under our agreement with SpectraSite Communications, Inc. The terms of the agreement call for us to receive a combination of cash and stock. In the first six months of 2001 we received \$359 in cash.

In the first quarter of 2001, we received approximately \$783 related to the sale of our investment in diAx to TDC. Approximately \$565 was recorded as a dividend, due to the nature of our investment in TDC, and was included in undistributed earnings from investments in equity affiliates.

Our investing activities during the first six months of 2001 consisted of \$5,744 in construction and capital expenditures, primarily in the wireline segment, including \$763 in fiber, electronics and other technology equipment for our broadband initiative, known as Project Pronto. Investing activities during the first six months of 2001 also included a receipt of \$1,371 from Cingular for payment of notes receivable and asset dispositions of \$339, primarily related to the sale of SecurityLink and the sale of Amdocs shares. There were no asset acquisitions during the first six months of 2001. Investing activities during the first six months of 2000 included asset dispositions of \$216, due to the sale of Telmex L shares, and asset acquisitions of \$3,663 related to the acquisition of Sterling.

Short-term borrowings decreased \$2,402 due to the repayment of short-term notes. We also spent \$1,465 on the repurchase of shares of our common stock under the repurchase plan announced in January 2000. As of July 31, 2001, we have repurchased a total of approximately 83 million shares of our common stock of the 100 million shares authorized to be repurchased. Financing activities during the first six months of 2000 included new short-term borrowings to finance our acquisition of Sterling. Cash paid for dividends in the first six months of 2001 was \$1,727, or 1.7% higher than in the first six months of 2000 due to an increase in dividends declared per share.

In February 2001, we redeemed prior to maturity approximately \$500 of the Trust Originated Preferred Securities (TOPRS) with an interest rate of 7.56%. The TOPRS had an original maturity of 30 years and were included on the balance sheet as corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts.

In March 2001, we paid the principal amount of each of the DECS, as adjusted by the exchange rate specified in the DECS, in the form of cash, which we received from settlement of our note receivable with characteristics similar to the DECS.

In March 2001, we issued approximately \$1,250 of ten-year, 6.25%, global notes. Additionally, we issued two, one-year notes for approximately \$500 each, which carry variable interest rates. Each note's interest is calculated based on the London Interbank Offer Rate (LIBOR), one recalculating monthly at the LIBOR less 1 basis point and the other recalculating quarterly at the LIBOR less 2.5 basis points. In April 2001, we issued approximately \$2,000 of five-year, 5.75%, global notes. The March and April 2001 notes are redeemable at any time, in whole or in part, and under certain circumstances, at a premium. The proceeds from these issuances were used to repay a portion of short-term borrowing and for general corporate purposes.

In June 2001, we redeemed prior to maturity approximately \$500 of the TOPRS with an interest rate of 8.50%. The TOPRS had an original maturity of 30 years and were included on the balance sheet as corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts.

In June 2001, we issued approximately \$500 of 7.00% Public Income Notes (PINES) due 2041. Interest on the PINES will be paid quarterly; the first payment will be September 1, 2001. We may redeem the PINES, in whole or in part, at any time on or after June 13, 2006. The proceeds were used to pay down short-term borrowings.

In June 2001, we privately sold \$1,000 of 20-year annual Puttable Reset Securities (PURS). The notes will bear interest at 4.25% until June 2002, at which time an investment bank has an annual option to require us to remarket or redeem the notes. If the option is exercised, the investment bank will reset the interest rate and remarket the notes for another twelve-month term. If the bank does not exercise its option on that reset date, we will be required to redeem the notes at par. The notes are classified as short-term debt and we used the proceeds to pay down other short-term borrowings.

In July 2001, we redeemed approximately \$560 of multiple bonds. The average interest rate of these bonds was 6.32% with an average remaining maturity of 2 years.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the disclosures about our sensitivities to market risks related to financial instruments since December 31, 2000.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties. We claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause our future results to differ materially from those expressed in the forward-looking statements:

- o Adverse economic changes in the markets served by SBC, or countries in which we have significant investments.
- o Changes in available technology.
- o The final outcome of FCC proceedings, including rulemakings, and judicial review, if any, of such proceedings, including issues relating to jurisdiction.
- o The final outcome of state regulatory proceedings in our 13-state area, and judicial review, if any, of such proceedings, including proceedings relating to interconnection terms, access charges, universal service, unbundled network elements and resale rates, Project Pronto, service standards and reciprocal compensation.
- o Enactment of additional state, Federal and/or foreign regulatory laws and regulations pertaining to our subsidiaries and foreign investments.
- o The timing of entry and the extent of competition in the local and intraLATA toll markets in our 13-state area and our entry into the in-region long distance market.
- o The impact of the Ameritech transaction, including performance with respect to regulatory requirements and merger integration efforts.
- o The timing, extent and cost of deployment of our broadband initiative also known as Project Pronto, its effect on the carrying value of the existing wireline network and the level of consumer demand for offered services.
- o The impact of the wireless joint venture with BellSouth Corporation, known as Cingular Wireless, including marketing and product development efforts, access to additional spectrum, technological advancements and financial capacity.

Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially impact our future earnings.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

During the second quarter of 2001, non-employee directors acquired from the Company shares of common stock pursuant to the Company's Non-Employee Director Stock and Deferral Plan. Under the plan, a director may make an annual election to receive all or part of his or her annual retainer or fees in the form of SBC shares or deferred stock units (DSUs) that are convertible into SBC shares. Each Director also receives an annual grant of DSUs. During this period, an aggregate of 49,887 SBC shares and DSUs were acquired by non-employee directors at prices ranging from \$40.06 to \$42.99, in each case the fair market value of the shares on the date of acquisition. The issuances of shares and DSUs were exempt from registration pursuant to Section 4(2) of the Securities Act.

Item 4. Submission of Matters to a Vote of Security Holders

Annual Meeting of Shareowners

- (a) The annual meeting of the shareowners of SBC Communications Inc. (SBC) was held on April 27, 2001, in San Antonio, Texas. Shareowners representing 2,786,591,777 shares of common stock as of the February 28, 2001 record date were present in person or were represented at the meeting by proxy.
- (b) At the meeting, holders of common shares voted as indicated below to elect the following persons to the Board of Directors for a three-year term:

| DIRECTOR | SHARES FOR | SHARES WITHHELD* |
|--------------------|---------------|------------------|
| ----- | ----- | ----- |
| Herman E. Gallegos | 2,663,818,014 | 122,773,763 |
| Jess T. Hay | 2,721,476,476 | 65,115,301 |
| James A. Henderson | 2,726,276,476 | 60,315,307 |

| | | |
|--------------------|---------------|------------|
| James A. Henderson | 2,720,270,470 | 60,513,507 |
| Bobby R. Inman | 2,720,152,767 | 66,439,010 |
| John B. McCoy | 2,726,568,191 | 60,023,586 |
| S. Donley Ritchey | 2,725,699,028 | 60,892,749 |
| Joyce M. Roche | 2,725,699,028 | 60,892,749 |

*Includes shares represented at the meeting by proxy where the shareowner withheld authority to vote for the indicated director or directors, as well as shares present at the meeting which were not voted for such director or directors.

- (c) Shareowners ratified the appointment of Ernst & Young LLP as independent auditors of SBC for the year ended December 31, 2001. The vote was 2,737,079,501 FOR and 27,534,240 AGAINST, with 21,978,036 shares ABSTAINING.

Shareowners voted to adopt a 2001 Incentive Plan for the purpose of replacing the 1996 Stock and Incentive Plan. The vote was 2,300,791,558 FOR and 440,386,688 AGAINST, with 45,413,531 ABSTAINING.

Shareowners voted not to adopt a shareowner proposal to require the board of directors to nominate at least two candidates for each open board position. The vote was 188,645,849 FOR and 2,047,348,741 AGAINST, with 97,549,789 ABSTAINING.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 12 Computation of Ratios of Earnings to Fixed Charges.

(b) Reports on Form 8-K

On April 24, 2001, we filed a Form 8-K, reporting on Item 5. Other Events and Item 7. Financial Statements and Exhibits. In the report, we disclosed a press release announcing first quarter earnings for 2001.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SBC Communications Inc.

August 8, 2001

/s/ Randall Stephenson

Randall Stephenson
Senior Executive Vice President
and Chief Financial Officer

E

SBC COMMUNICATIONS INC. COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES Dollars in Millions

| | Six Months Ended June 30, | | Year Ended December 31, | | | |
|---|------------------------------|----------|-------------------------|-----------|-----------|----------|
| | 2001 | 2000 | 2000 | 1999 | 1998 | 1997 |
| Income Before Income Taxes, Extraordinary Items and Cumulative Effect of Accounting Changes* | \$ 5,883 | \$ 5,732 | \$ 12,367 | \$ 10,382 | \$ 11,859 | \$ 6,356 |
| Add: Interest Expense | 884 | 772 | 1,592 | 1,430 | 1,605 | 1,550 |
| Dividends on Preferred Securities | 46 | 52 | 118 | 118 | 114 | 98 |
| 1/3 Rental Expense | 114 | 129 | 252 | 236 | 228 | 202 |
| Adjusted Earnings | \$ 6,927 | \$ 6,685 | \$ 14,329 | \$ 12,166 | \$ 13,806 | \$ 8,206 |
| Total Interest Charges | \$ 938 | \$ 814 | \$ 1,693 | \$ 1,511 | \$ 1,691 | \$ 1,700 |

| | | | | | | |
|------------------------------------|----------|--------|----------|----------|----------|----------|
| Dividends on Preferred Securities | 46 | 54 | 118 | 118 | 114 | 98 |
| 1/3 Rental Expense | 114 | 129 | 252 | 236 | 228 | 202 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Adjusted Fixed Charges | \$ 1,098 | \$ 995 | \$ 2,063 | \$ 1,865 | \$ 2,033 | \$ 2,000 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Ratio of Earnings to Fixed Charges | 6.31 | 6.72 | 6.95 | 6.52 | 6.79 | 4.10 |

*Undistributed earnings on investments accounted for under the equity method have been excluded.

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EXHIBIT II

SBC INVESTOR BRIEFING



Investor Briefing

April 23, 2001 | No. 225

Strong Growth in Data, Wireless and Long Distance Highlights SBC's First-Quarter Results

Economy Impacts Outlook for Remainder of 2001

SAN ANTONIO, April 23, 2001 — SBC Communications Inc. (NYSE: SBC) today reported that its primary growth drivers — data, wireless and long distance — performed strongly during the first quarter.

Highlights included:

- 39.9 percent growth in data revenues
- A net gain of 854,000 subscribers at Cingular, SBC's nationwide wireless joint venture with BellSouth
- 2.2 million long-distance lines in Texas, Oklahoma and Kansas; SBC entered the Texas long-distance market in July 2000, and the two other states in March of this year

As expected, the timing of SBC's investments in its growth initiatives during 2000 impacted first-quarter expense and earnings comparisons. The slowing U.S. economy also dampened growth. First-quarter earnings were \$1.7 billion, or \$0.51 per diluted share, before one-time

items, compared with \$1.9 billion, or \$0.56 per diluted share, in the first quarter a year ago. Operating revenues for the quarter, including results from Cingular, increased 4.7 percent to \$13.1 billion.

First-quarter revenue growth was adversely impacted by SBC's sale of Ameritech's security-monitoring business. Excluding results from this divestiture as well as shifts in directory publishing dates and the pro forma effect on the year-ago quarter of the Cingular venture, first-quarter revenues increased 6.7 percent.

Primarily because of weakening U.S. economic conditions, SBC expects earnings per share for 2001, before one-time items, in the \$2.35 to \$2.40 range.

"The economy is having a greater impact on our business than we projected," said Edward E. Whitacre Jr., SBC chairman and CEO. "We handled the first-quarter revenue

shortfall well, thanks to very disciplined expense management. Going forward, we are determined not to lose sight of our larger strategic mission — including fully developing our broadband capabilities and obtaining long-distance relief in our states as quickly as possible — and we will not compromise our long-term future to preserve near-term projections.

"Broadband is the foundation for a host of new value-added services, and we will continue to pursue it aggressively," Whitacre said. "Long distance complements our broadband strategy, and this year we have the potential to increase our long-distance opportunity from two states to eight states. Looking ahead, we will continue playing to our strengths, and our adjusted game plan for 2001 should yield a much more stable and predictable growth profile for the future."

FIRST-QUARTER RESULTS

(Dollars in millions, except per-share amounts. Results exclude one-time items. First-quarter 2001 results include proportionate Cingular results. First-quarter 2000 not restated.)

| (Volumes in thousands) | 1Q01 | 1Q00 | Change |
|--|----------|----------|--------|
| Total operating revenues | \$13,144 | \$12,553 | 4.7% |
| EBITDA | \$ 5,164 | \$ 5,291 | -2.4% |
| Earnings before extraordinary item | \$ 1,739 | \$ 1,910 | -9.0% |
| Diluted earnings per share | \$ 0.51 | \$ 0.56 | -8.9% |
| Data revenues | \$ 2,127 | \$ 1,521 | 39.9% |
| Wireless subscriber revenues | \$ 1,688 | \$ 1,500 | 12.5% |
| Domestic wireless subscribers ¹ | 20,535 | 17,294 | 18.7% |
| Proportionate international revenue ² | \$ 1,795 | \$ 1,464 | 22.6% |

1 - Represents total Cingular pro forma subscribers in both periods.

2 - Amounts for 2000 have been restated to exclude investments that have been sold or are no longer accounted for under the equity method.

Revenue *and* Expense trends

SBC achieves significant sequential expense and margin improvement, strong results in major growth drivers — data, wireless, long distance

SBC's first-quarter financial performance was defined by: (1) continued strong results in its major growth drivers — data, wireless and long distance; (2) solid expense management as total operating expenses declined 6.1 percent from fourth-quarter 2000 levels; and (3) lower-than-expected revenue growth due to a weakened U.S. economy and increased competition, particularly in the Ameritech region.

In the first quarter:

- Data revenues increased 39.9 percent.
- Cingular Wireless recorded a net subscriber gain of 854,000, compared with a pro forma gain of 695,000 in the first quarter a year ago.
- Total long-distance lines in Texas, Kansas and Oklahoma increased to 2.2 million, up from 1.7 million at the end of the fourth quarter. SBC began selling long-distance services in Texas in July 2000, and in Kansas and Oklahoma this March.
- Compared with the first quarter a year ago, cash operating expenses increased 9.9 percent, reflecting the timing of investments in major growth drivers in 2000. However, from fourth-quarter 2000 levels, cash operating expenses declined 7.1 percent, and SBC's EBITDA margin increased 50 basis points. These sequential improvements occurred despite the fact that first-quarter results included significant expenses to support Cingular's national branding campaign, launched in January, as well as expenses for initiatives to integrate SBC's and BellSouth's formerly separate wireless operations.
- Wireline cash operating expenses declined 7.2 percent, and the company's wireline EBITDA margin increased to 38.8 percent, up 420 basis points from fourth-quarter levels.
- Revenues grew 6.7 percent excluding the impact of the sale of Ameritech's security monitoring business, directory publishing date shifts and the year-ago pro forma effect

of Cingular. Wireline revenues increased 5.0 percent compared with the first quarter a year ago.

REVENUE DYNAMICS

SBC's lower than-expected first-quarter revenue growth in both residential and business markets was caused principally by a weakened U.S. economy, increased competitive inroads and the divestiture of Ameritech's security monitoring business.

SBC has experienced the impacts of a slower economy across its regions, with impacts in February and March being more severe than in the previous months and more severe than the company had anticipated. Across the company, inward call volumes to service centers declined with access line growth trends, particularly in residential markets. Broader economic trends — including housing starts, layoffs and bankruptcies — mirror SBC's business indicators. In California, the largest state in SBC's in-region territory, the macroeconomic impact on access line growth was exacerbated by California's energy crisis and the failure of many dot-com and high-tech startups.

AN IMPORTANT YEAR

SBC is confident in its long-term growth strategies — in data, DSL, wireless and long distance — and its focus is on building platforms in these high-potential areas that are capable of driving sustainable growth in 2002 and the years ahead.

SBC also believes that 2001 is an important year in the telecommunications industry's transformation and in its own development.

- SBC, which started this year providing long distance in two states, hopes to end the year as a long-distance provider in eight states, including the two largest in this country — Texas and California. Long distance is a linchpin to having a full set of products in both the residential and business markets.

SBC Major Revenue Growth Drivers

- Data
- Wireless
- Long Distance

- SBC also has made rapid progress in broadband and believes that in the quarters ahead it has the opportunity to expand substantially its DSL customer base. Demand for broadband services is robust, and SBC plans to be aggressive in expanding its DSL growth platform.
- At the same time, while SBC has made substantial progress on service quality issues at Ameritech, finalizing those efforts while improving the regulatory and competitive climate in the region will require continued effort.

YEAR 2001 PRIORITIES

In light of these opportunities and commitments, SBC's priorities in 2001 are:

- Aggressive execution of major growth drivers — data services, mass market broadband (DSL), nationwide wireless and long distance.
- Superior customer service — SBC believes that delivering the market's best customer service provides a critical competitive edge and forms a foundation for future growth initiatives.
- Financial strength — SBC views its financial strength and flexibility as key strategic assets. It is committed to enhancing its already strong balance sheet and solid cash flow through disciplined expense management and investment strategies designed to yield returns well in excess of the cost of capital.

In the first quarter, SBC extended its strong growth record in wireline data. Total data revenues increased 39.9 percent compared with the first quarter a year ago and exceeded \$2.1 billion dollars — nearly double SBC's data revenue stream just two years ago.

- Strong growth in Internet services revenues also continued as SBC and its subsidiary Sterling Commerce expanded e-business solutions for the small-business market while SBC added to its Web-hosting operations. SBC currently hosts the Web sites of more than 21,000 businesses, nearly double its total a year ago.

(Dollars in millions)

| Year | Units Sold (millions) |
|------|-----------------------|
| 1997 | 1.1 |
| 1998 | 1.2 |
| 1999 | 1.3 |

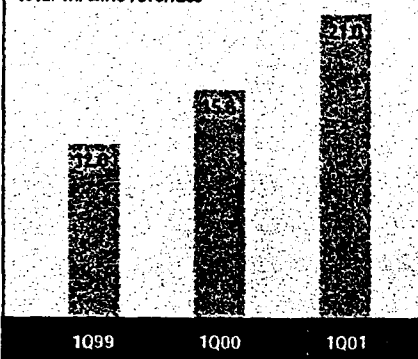
SBC's first-quarter data growth highlights included:

- Core data transport products, including DS3s and ATM, sustained their strong growth rates.
- SONET revenues also continued their strong growth, as demand from enterprise customers for high-bandwidth solutions continues to expand rapidly.
- Revenues from integration services were up as well, as enterprise companies continue to turn to SBC for a range of network analysis, planning and security solutions.

SBC continues to drive growth by migrating customers to higher-speed services and longer-term commitments and by expanding capabilities in attractive market segments. For example, in the first quarter SBC:

- Launched GigaMAN service in the Southwestern Bell and Pacific Bell regions. The service, which provides high-bandwidth LAN links within a metropolitan area, already has proven very successful in the Ameritech region.
- Expanded sales of its "OnLine Office" bundle of DSL, Internet access, e-mail accounts and Web-hosting services for small businesses. This high-value package helps a wide range of businesses participate more easily in the e-economy through informational Web sites, online catalogs and transaction tools. Sales of OnLine Office have increased dramatically during the past two quarters due in part to mainstreaming the product's sales force to include more than 4,000 general sales people.

Data revenues as a percent of total wireline revenues



- Continued to see strong results from its major sales and marketing alliance with Cisco Systems, which was launched in the second quarter of 2000.
- Launched its second Internet Data Center (IDC). The newest center, in Irvine, California, follows the successful opening of its sister IDC in Dallas in the third quarter of last year. In addition, SBC launched its new WebHosting.com line of dedicated hosting products. SBC acquired a controlling interest in the parent company of WebHosting.com in the third quarter of last year.
- Moved to increase its international data capabilities by developing a frame relay service to Mexico, which is expected to be available in the second quarter, and by adding three virtual border crossings along the Rio Grande region of Texas, which should further increase the sale of private lines to Mexico.

(Dollars in millions)

| | 1Q01 | 1Q00 | Change |
|---------------------|---------|---------|--------|
| Data transport | \$1,534 | \$1,190 | 28.9% |
| Advanced services | \$ 593 | \$ 331 | 79.4% |
| Total data revenues | \$2,127 | \$1,521 | 39.9% |

DSL growth

Total DSL subscribers reach 954,000 at end of quarter; systems advances improve provisioning, quality of customer experience

In the first quarter, SBC made substantial advances in broadband, further strengthening its position as the nation's leading provider of DSL services.

SBC views DSL as a key growth platform for the future — capable of delivering a host of entertainment, information and time management services as well as high-speed Internet access to both residential and business customers. During the past few months, SBC's conviction that DSL holds huge potential as a strategic growth driver has been reinforced by market research.

During the first quarter, SBC:

- Expanded its DSL in-service subscriber base to 954,000.
- Achieved significant improvements in provisioning, operating efficiency and overall customer experience. Due date intervals now average less than 10 business days, and 90 percent of orders are completed on or before their original due dates.
- Further broadened its addressable market through its Project Pronto network build-out. At the end of first quarter, SBC was able to reach 21.7 million customer locations, or more than 50 percent of the company's customer base with its DSL service, up from 12.9 million locations just one year ago.

"Over the past two quarters, SBC has elevated the quality of customers' broadband experience," said Ed Whitacre. "While we are only two years into broadband and still have considerable work to do, demand is strong, per-customer financial metrics are improving, and we are confident in our business model — which is every bit as promising as wireless was in its first years. SBC plans to continue to be aggressive in expanding its DSL growth platform."

"Over the past two quarters, SBC has elevated the quality of customers' broadband experience. While we are only two years into broadband and still have considerable work to do, demand is strong, per-customer financial metrics are improving, and we are confident in our business model — which is every bit as promising as wireless was in its first years."

**EDWARD E. WHITACRE JR.
CHAIRMAN AND CEO**

CUSTOMER GROWTH

SBC's emphasis in the first quarter has been on improved operating efficiencies and enhanced quality for the overall customer experience — both critical foundations for aggressive growth in DSL.

Gross install levels in the first quarter were consistent with results in the fourth quarter, and SBC's net subscriber gain of 187,000 represents a solid extension of recent momentum in light of two factors. Database reconciliations made possible by enhancements to automated systems added to the number of disconnects attributed to this quarter. In addition, during the first quarter, SBC changed its bundled offer of a DSL-ready Compaq PC plus Internet access over DSL, launched in July 2000, so that customers purchased the PC from Compaq rather than as part of a seamless offer. This change resulted in significantly slower sales of the bundle. Excluding the impact of these two factors, SBC's daily net gain in subscribers would have been in the 3,500 – 4,000 range, as expected.

Market trends continue to be positive.

The company's most recent research found that in the competitive broadband marketplace SBC maintains its composite leading position in five key service areas — Dallas, Houston, Los Angeles, San Francisco and San Antonio.

Going forward, SBC anticipates volatility in quarterly customer growth numbers as it completes the transition of its customer base to automated systems and as a limited number of ISP (Internet Service Provider) resellers and DSL providers work their way through widely reported financial difficulties. Because more than 80 percent of its DSL customer base obtains Internet access service directly from an SBC entity or affiliate, SBC has limited exposure to ISP financial failure. Nevertheless, a few ISPs' restructuring or closing operations in a quarter could significantly distort that quarter's growth statistics. Over time, SBC expects to continue to be the DSL provider for many of these ISPs' customers — including temporarily displaced customers — whether these ISPs successfully restructure, transition their customers to more stable ISPs or cease operations altogether.

STRONG DEMAND

Demand for DSL services continues to be robust and is expected to grow significantly over the next few years. At the end of 2000, there were more than 6 million U.S. residential customers accessing the Internet through a broadband connection and that number is expected to grow to more than 28 million customers in 2004, according to industry analyst firm Gartner Dataquest. Other recent independent studies have projected even higher totals for residential and small-business customers combined.

Moreover, customers who adopt broadband are passionate in their commitment to the service. Broadband Watch, a new survey

sponsored by SBC Communications designed to check the pulse of today's broadband users, found that residential DSL users spend an average of 25 hours a week online, compared with just 7.5 hours with dial-up Internet service. Broadband Watch, which surveyed customers in SBC's 13-state region, also found that DSL service and the PC have already become the two most important household technologies for customers. Nearly all respondents (96 percent) consider their high-speed Internet access to be an important household technology, more significant than the microwave (88 percent), remote control (87 percent), VCR (81 percent), cable TV (70 percent), and their garage door opener (59 percent).

Looking ahead, the research found that there is growing anticipation for emerging high-speed Internet access products and services. More than two-thirds of the respondents expressed interest in future applications and content such as distance learning (71 percent), video-on-demand (70 percent), videoconferencing (69 percent) and home networking (66 percent).

SUSTAINED DSL LEADERSHIP: MAJOR FOCUS AREAS

In addition to continued expansion of its customer base, SBC continues to make excellent progress in areas that are critical to realizing the tremendous potential of its DSL platform:

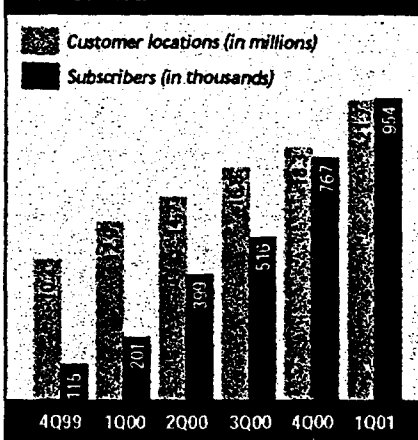
Improved Financial Metrics —

Improved provisioning and added scale already have improved significantly the economics of DSL, and SBC expects continued advances over the next two years. During the past six months, SBC's DSL subscriber acquisition costs have declined more than 25 percent. Going forward, expenses are expected to decline further due to additional process improvements and declining costs for modems and other DSL equipment. At the same time, per-customer revenue growth is expected to be driven by new revenue-generating applications and by a shift in subscriber mix to higher-revenue business customers who purchase premium speeds and multiple IP services.

Expanded Addressable Market — SBC continues to move rapidly with Project Pronto, and the central thrusts of this deployment for its DSL service are reaching more potential customers and moving many more customers into the 14,000-feet-and-under zone. This zone offers superior financial characteristics and a greatly enhanced overall broadband customer experience. Because of regulatory delays, SBC was behind plan in remote terminal deployment in 2000, which impacted both the pace and the initial economics of its DSL initiative.

At the end of first quarter, SBC's total potential broadband customer base reached 21.7 million locations, up from 12.9 million locations just one year ago. SBC has deployed DSL enabling equipment in nearly 1,300 of its central offices, representing more than 90 percent of the company's targeted level for this aspect of Project

DSL Growth



Pronto, and all of these central offices have capacity to support new orders. In addition, SBC now has nearly 3,000 Broadband Neighborhood Gateways in service but has suspended their DSL-related deployment in Illinois due to regulatory issues in that state.

Enhanced Customer Experience —

SBC continues to make good progress making DSL easier, faster and more efficient to install. In the first quarter, nearly 70 percent of new subscribers used self-install. Over the past six months, the percentage of automated order flow-through at SBC's data subsidiary has more than doubled. These process improvements combined with the success of self-installs has enabled SBC to reduce average due date intervals more than 50 percent since September. A key to further enhancing customers' broadband experience is the availability of new applications, and SBC expects to begin trials of several in the coming months.

EXHIBIT III

WEBSITE EXCERPTS

| | | | | | | | |
|----------------------|--------------------------------|---------------------------|-----------------------------|--------------------------|------------------------------------|-----------------------------------|-------------------------------|
| Data | Public Affairs | Community | Home Center | Business | Investor Relations | Products/Services | International |
|----------------------|--------------------------------|---------------------------|-----------------------------|--------------------------|------------------------------------|-----------------------------------|-------------------------------|

SMARTpages.com
Find the person, place, or thing you're looking for

BROADBAND 101
Getting Up to Speed on Today's Internet

SBC Names Line of Best Companies for Hispanic Families

What's New
SBC Foundation Awards \$4 Million in Scholarships

Investor Relations
About Reliance Securities
Quarter Earnings

PRODUCTS/SERVICES

BROADBAND WATCH: BACK TO SCHOOL
Survey: DSL Internet is educational edge

Broadband Regulatory Changes Needed
Edward E. Whitacre Jr., Keynote, SUPERCOMM

PRODUCTS/SERVICES

highspeed DSL Internet
Special Offers Available

PUBLIC AFFAIRS

Long Distance
SBC files for Long Distance in Arkansas, Missouri

PRODUCTS/SERVICES

Order Now
Long Distance available in Texas, Kansas, and Oklahoma.

News

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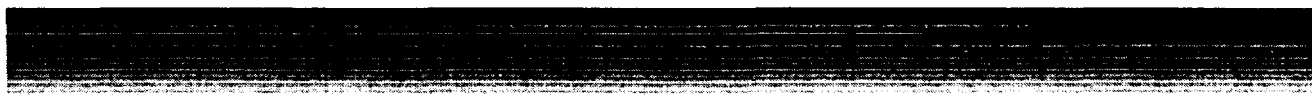
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What is DSL technology?

Digital Subscriber Line (DSL) technology provides instant Internet and network access at speeds up to 50 times faster than a 28.8Kbps modem on a standard analog phone line. There are no dial-up delays, no busy signals. What used to take minutes or hours to download will take just seconds or minutes.

With DSL Internet Service you can download graphics-heavy files, large documents, software, photos, email attachments, and more, instantly. It's perfect for real-time interactive multimedia, broadcast quality video, distance learning, and video-on-demand. And because DSL Internet Service sends data and voice over the same line, you can talk on the phone while you connect.

DSL technology brings high-bandwidth connectivity to you over ordinary copper telephone lines. The type of DSL Internet Service that SBC Internet Services offers is Asymmetrical Digital Subscriber Line (ADSL) Internet. It's called "asymmetric" because the speed of the receiving data (the downstream rate to your computer) is different than the speed of sending data (the upstream rate from your computer to the Internet). And, while it uses a different technology than traditional analog modems, the ADSL modem plugs into your phone jack much like an analog modem.

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Why get DSL Internet Service?

DSL Internet Service allows you to surf the Internet, connect to your corporate network, and download files to your computer with amazing speed. You'll be able to play networked computer games faster than before -- and streaming audio and video are becoming popular applications for use with DSL Internet Service.

Unlike the dial-up connections required for analog modems, your DSL Internet Service connection can be turned on almost instantly. There are no more busy signals and no more waiting for the connection to happen - it's there at the click of your mouse. If you do turn your PC off (or terminate your DSL Internet Service connection), it's quick and easy to log back on -- no more long waits as your analog modem establishes its connection.

Another benefit is that DSL Internet Service uses your existing telephone line - you can actually talk on your phone line at the same time you're using it to surf the Internet!

Advantages

- Comes in multiple speeds to fit your needs.
- Offers simultaneous data and voice capability, allowing you to talk on the phone while sending or receiving data on the same phone line.
- Uses your existing telephone line.
- Connects instantly at the click of an icon, eliminating the time spent waiting for call set-up and busy signals.
- DSL Internet Service is a dedicated digital line that's instantly available, so you won't be slowed down by heavy traffic dialing into an Internet Service Provider (ISP).
- Data travels on its own dedicated line between your home/business and the DSL gateway, so other online traffic in your neighborhood won't slow you down.

Applications

- High-speed Internet access - download data, graphics, or audio and video files at high speeds.
- Telecommuting - you have virtually the same LAN speed as on-site workers. If your

office network has ATM Cell Relay Service you can access that network directly with your DSL Internet Service as easily as if you were at the office.

- Real-time interactive multimedia, broadcast quality video, video conferencing and video-on-demand.
- Distance learning.

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Why buy DSL Internet Service from SBC Internet Services?

When you buy DSL Internet Service from an SBC Internet Services company, it's backed up by years of experience and reliability from within the SBC family of companies. Our salespeople at Southwestern Bell have years of experience in selling voice, data, and other telecommunications products. So SBC Internet Services is able to deliver to you high-speed DSL Internet Service from a name you know and trust.

To show our commitment to DSL technology, the SBC family of companies is spending over \$6 billion to build-out our high-speed DSL network and make its benefits more available to customers throughout our service area.

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What is the difference between DSL technology and cable modem technology?

DSL technology provides instantly available high-speed Internet access over a single dedicated telephone line. Cable modems offer high-speed Internet access over a shared cable television line.

While cable modems may have greater theoretical downstream (from the Internet to the home) bandwidth capabilities, that bandwidth is shared among all users in a neighborhood, and will therefore vary, perhaps dramatically, as more users in a neighborhood get online at the same time.

Upstream traffic (from the customer premise to the Internet) over cable modems will in many cases be slower than DSL transport, either

because the particular cable modem is inherently slower, or because too many people in a neighborhood are trying to send or receive data at the same time - causing congestion in the local cable network.

DSL Technology Advantages

- Faster than cable modem service during peak usage periods*
- Flexible enough to grow with the skills and interests of our users
- Customers can also use dial-up connections, and access services like email remotely
- DSL technology is as reliable as your phone
- Speed stays consistent, as opposed to the shared systems used by cable companies where speed may decrease as more users sign up.

Cable Modem Disadvantages

- Reliability and privacy issues, since bandwidth is shared over the local cable network
- Shared bandwidth can cause slowdowns due to local network congestion
- Cable modem services often do not support a virtual private network (VPN) which allows the user to connect to a corporate network.

* Based on a month-long benchmarking study by Keynote Systems in February 2001, DSL technology was found to be faster than cable modems during periods of peak traffic. Connection speed is between customer's premises and the DSL-equipped serving central office or DSL gateway. Actual speeds will vary.

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Residential

DSL Internet Service

Southwestern Bell offers several different DSL Internet Service packages and speed options to meet your data and Internet access needs.

DSL Internet Service Offers

Basic DSL Internet Service

[Details](#)[Order
Now](#)

Month-to-month or annual Basic DSL
Internet Service for \$49.95 per month.
Save \$50 when you order online

Basic DSL Internet Service with \$149 SBC Value Reward

[Details](#)[Order
Now](#)

For a limited time only, sign up for one
year of Basic DSL Internet Service for only
\$49.95 per month and get your choice of
a **\$149 SBC Value Reward** selection

Enhanced DSL Internet Service

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Order](#)

Enhanced DSL Internet Service with
multiple static IPs for as low as \$64.95 per
month

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Southwestern Bell Basic DSL Internet Service

Southwestern Bell Basic DSL Internet Service is designed to provide the that dial-up analog and single-user ISDN customers receive today, only speeds.

[Pricing](#)
[Features](#)

Pricing

The following pricing information applies only to SBC DSL Internet Servi

| Pricing | | | | | | |
|-------------------|----------------|------|---------------------------|-----------------|----------|--|
| Speed* | Monthly fees** | Term | Equipment Install*** | GSP/SBC Install | Equipmen | |
| 384Kbps | \$49.95 | None | \$0 customer self-install | Included | \$99 | |
| - | | | | | | |
| 1.5Mbps / 128Kbps | | | \$200 technician install | | | |

[Order Now](#)

Basic DSL Internet Service with \$149 SBC Value Reward¹

| | | | | | | |
|-------------------|---------|--------|---------------------------|----------|----------------------------|--|
| 384Kbps | \$49.95 | Annual | \$0 customer self-install | Included | Free with SBC Value Reward | |
| - | | | | | | |
| 1.5Mbps / 128Kbps | | | \$200 technician install | | | |

[Order Now](#)

Features



Features

| Subject | Info |
|--|-------------------------------|
| Speed Available* (downstream / upstream) | 384Kbps - 1.5Mbps / 12 |
| Unlimited Usage | Yes |
| Dynamic IP Address | 1 |
| Optional DNS Services | No |
| Optional Web Hosting | Yes : Call 1-888-792-0 |
| POP Email Accounts | 11 |
| Personal Web Page account | Yes, with 15MB storage |
| Free Analog Dial-up Internet Account | Yes |
| UseNet Newsgroup Access | Yes |

* Downstream / Upstream speeds. Service not available in all areas due to factors associated with technology such as line conditions or distance. Actual speeds will vary. Access speed is based on location and the DSL-equipped Central Office or Gateway.

** Monthly pricing includes GSP charges. Regular voice telephone line and service not included. Limitations apply. No other discounts apply. DSL Internet Service billing will begin when you activate your DSL Internet Service on our network. DSL Internet Service is provided by Southwestern Bell Internet Services, Inc. Copyright © 2001 Southwestern Bell Internet Services, Inc. All rights reserved.

*** The \$200 charge is for a technician installation and includes the installation of the first additional maintenance work on the line that is used for your DSL Internet Service, the following charges apply:

- Installation of an additional new jack (with associated inside wiring): \$120 one-time charge
- Movement of an existing jack (with associated inside wiring): \$120 one-time charge
- Repair an existing jack, inside wiring, or other problem with the DSL line at your location
 - Basic rate (Monday through Saturday, 8 am to 5 pm): \$60 for first 30 minutes of work for each additional increment of 30 minutes of work
 - Overtime rate (Monday through Saturday, after 5 pm): \$75 for first 30 minutes of work for each additional increment of 30 minutes of work
 - Premium rate (any time on Sundays and Holidays): \$90 for first 30 minutes of work for each additional increment of 30 minutes of work

For customers who sign up for the self-installation option and who subsequently require a technician to complete the installation, there will be a \$150 charge.

**** The cost necessary to process your DSL Internet Service through the SBCIS ordering system is \$100.

¹**Requires annual term agreement.** Early termination fee applies. NEW DSL INTERNET SUBSCRIBERS ONLY. After your DSL Internet Service order request is processed, you will with instructions on applying for your \$149 SBC Value Reward. You can apply for your SB selection online after installing DSL Internet Service. Allow 4-6 weeks for mail delivery of selection. This is a limited time offer. Terms and conditions subject to change without notice. Restrictions may apply. DSL Internet Service pricing includes GSP charges. DSL Internet Service begins when your DSL Internet Service is activated on our network. Service may not be available in all areas due to factors associated with DSL technology such as line conditions or distance. Actual speeds will vary. Internet services provided by Southwestern Bell Internet Services, Inc. are a registered trademark of Prodigy Communications L.P. Other product and brand names may be registered trademarks of their respective owners.

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Check Availability

Use the link below to check DSL Internet Service availability in your area

[Check Availability](#)

Order DSL Internet Service

Use the links below to order online, or call 1-877-SBC-DSL5

[Order Residential DSL Internet Service](#)

[Order Business DSL Internet Service](#)

[About Check Availability](#)

[About Ordering](#)

About Check Availability

In order to qualify for DSL Internet Service, your location must meet certain conditions. In addition to having DSL Internet Service available in your central office, you must be less than 14,000 feet, approximately 3 miles, from your central office, or live in a neighborhood where a DSL Gateway has been installed. Please note that the measurement from the central office or gateway to your location is the length of the telephone line facility, not street miles or air miles. You must also have a telephone line qualified to carry the DSL signal.

Not all customers who meet these criteria will qualify for DSL Internet Service, due to existing conditions of the telephone line. For example, some telephone equipment, which are used as part of the telephone company infrastructure to provide better voice service, can interfere with the DSL signal. If your line has these conditions, it is not qualified to carry the DSL signal. Historically, approximately 60% - 65% of customers out of each central office will qualify for the service.

[More on Availability](#)

About Ordering

Before ordering, we must first determine whether DSL Internet Service is available to your area. If DSL Internet Service is available in your area, and you are within 14,000 feet of your Central Office or DSL Gateway, a visit by one of our technicians will determine

whether your servicing line and telephone equipment can carry the DSL signal. The last step — installation of the filters, modem, and software — can be performed by either our technicians, or yourself with a self installation kit.

If you order installation by one of our technicians:

First, we'll install a new line from the Central Office or DSL Gateway to your home. If the Network Interface Device is easily accessible without your help, you will not need to be home for this step. On a subsequent visit, we'll install new in-house wiring and a new jack. We'll also configure the Network Interface Card (NIC) or router and install the software. Finally, we'll make sure you're up and running and answer any questions you may have.

If you order the Self-installation kit:

We ship the equipment and software directly to you; equipment will arrive via UPS before the due date. Once you receive the equipment, you'll install the plug-in filters at each phone jack, install the modem and install the software. Once these steps have been completed, you will need to register your Internet service with your Internet Service Provider. Your DSL Internet Service will not be activated until some time on the due date.

The self-installation option is less expensive and you don't have to wait for an appointment or a technician. Best of all, we provide you with all the instructions you need - and technical assistance is just a phone call away.

[More on Ordering](#)

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Pricing

The following pricing information applies to SBC DSL Internet Service pr

DSL Internet Service Prices

| Product Options* | Monthly Fees** | Term | Equipment Install*** | GSP/SBCIS Install | Equipment | Act Fe |
|------------------|----------------|------|----------------------|-------------------|-----------|--------|
|------------------|----------------|------|----------------------|-------------------|-----------|--------|

Basic DSL Internet Service 384Kbps - 1.5Mbps / 128Kbps

| | | | | | | |
|-------------------------------|---------|------|---|----------|------|-------------------------|
| Residential or Business | \$49.95 | None | \$0 (customer self-install) \$200 (technician install) | Included | \$99 | \$5 FR yo onli |
|-------------------------------|---------|------|---|----------|------|-------------------------|

Basic DSL Internet Service Value Reward Promotion 384Kbps - 1.5Mbps / 128Kbps

| | | | | | | |
|-------------------------------|---------|--------|---|----------|---|-----------------|
| Residential or Business | \$49.95 | Annual | \$0 (customer self-install) \$200 (technician install) | Included | Free with SBC Value Reward ¹ | Fre SB Re |
|-------------------------------|---------|--------|---|----------|---|-----------------|

Enhanced DSL Internet Service 384Kbps - 1.5Mbps / 128Kbps

| | | | | | | |
|-------------------------------|---------|------|-------|-------|---|-----|
| Residential or Business | \$64.95 | None | \$200 | \$100 | \$99 (modem) or \$378 (router) | \$5 |
|-------------------------------|---------|------|-------|-------|---|-----|

1.5Mbps - 6Mbps / 384Kbps

| | | | | | | |
|-------------------------------|----------|------|-------|-------|-----------------------------|-----|
| Residential or Business | \$179.95 | None | \$200 | \$100 | \$99 (modem) or \$378 | \$5 |
|-------------------------------|----------|------|-------|-------|-----------------------------|-----|

(router)

Enhanced DSL Internet Service with Router Promotion²

384Kbps - 1.5Mbps / 128Kbps

| | | | | | | |
|-----------------|---------|-----------|-------|-------|---------------------------|-----|
| <u>Business</u> | \$74.95 | 18 months | \$200 | \$100 | Included in monthly price | \$5 |
|-----------------|---------|-----------|-------|-------|---------------------------|-----|

Enhanced DSL Internet Service Special 90-Day Pricing with Router

1.5Mbps - 6Mbps / 384Kbps

| | | | | | | |
|-----------------|-----------------|-----------------|-------|--|-----------------|--|
| <u>Business</u> | \$74.95 | 18 months | \$200 | \$100 | Router Included | \$5 |
| | (first 90 days) | | | (\$0 if you are upgrading from existing Enhanced DSL Internet Service) | | (\$0 if upgrading from Enhance DSL Internet Service) |
| | \$159.95 | (after 90 days) | | | | |

* Downstream / Upstream speeds. Service not available in all areas due to factors associated with DSL technology such as line conditions or distance. Actual speeds will vary. Access speed is dependent on customer's location and the DSL-equipped Central Office or Gateway.

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*** The \$200 charge is for a technician installation and includes the installation of the first time you need additional maintenance work on the line that is used for your DSL Internet Service. The following charges will apply:

- Installation of an additional new jack (with associated inside wiring): \$120 one-time charge per jack
- Movement of an existing jack (with associated inside wiring): \$120 one-time charge
- Repair an existing jack, inside wiring, or other problem with the DSL line at your location (premise):
 - Basic rate (Monday through Saturday, 8 am to 5 pm): \$60 for first 30 minutes of work, \$35 for each additional increment of 30 minutes of work
 - Overtime rate (Monday through Saturday, after 5 pm): \$75 for first 30 minutes of work, \$45 for each additional increment of 30 minutes of work
 - Premium rate (any time on Sundays and Holidays): \$90 for first 30 minutes of work, \$50 for each additional increment of 30 minutes of work

For customers who sign up for the self-installation option and who subsequently require a technician to complete the installation, there will be a \$150 charge.